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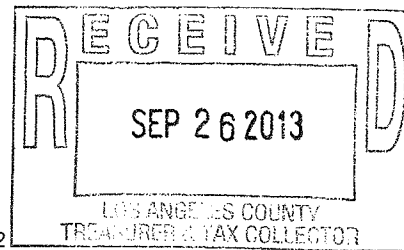
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WILLIAM T FUJIOKA  
Chief Executive Officer

# County of Los Angeles CHIEF EXECUTIVE OFFICE

Kenneth Hahn Hall of Administration  
500 West Temple Street, Room 713, Los Angeles, California 90012  
(213) 974-1101  
<http://ceo.lacounty.gov>



September 19, 2013

To: Supervisor Mark Ridley-Thomas, Chair  
Supervisor Gloria Molina  
Supervisor Zev Yaroslavsky  
Supervisor Don Knabe  
Supervisor Michael D. Antonovich

Board of Supervisors  
GLORIA MOLINA  
First District

MARK RIDLEY-THOMAS  
Second District

ZEV YAROSLAVSKY  
Third District

DON KNABE  
Fourth District

MICHAEL D. ANTONOVICH  
Fifth District

From: William T Fujioka  
Chief Executive Officer

RESPONSE TO THE AUGUST 20, 2013, BOARD MOTION REQUESTING ALL PARTIES TO REPORT TO THE BOARD ON ACTION TAKEN IN RESPONSE TO THE AUGUST 28, 2012, MOTION CONCERNING THE MEDICARE PART D DRUG SUBSIDY PROGRAM

This memo is in response to your motion of August 20, 2013, requesting the Chief Executive Office, with the assistance of the Auditor-Controller and the Treasurer & Tax Collector, report to the Board on the action taken by all parties in response to the August 28, 2012, motion concerning the Medicare Part D Drug Subsidy program, and an effort to achieve maximum possible cost recovery for the County.

The Treasurer & Tax Collector, Auditor Controller and staff, Chief Executive Office staff, as well as the CEO of LACERA and staff met on September 5, 2013. It was decided at the meeting that the motion is primarily a LACERA and CEO issue and the Auditor Controller and Treasurer and Tax Collector would be consulted in the future should an issue arise in which they have expertise.

LACERA has taken significant action since August 28, 2012, including:

- Sole sourced the 2006-2007 Retiree Drug Subsidy (RDS) claim audits with their Retiree Healthcare Program (RHP) consultant, AON. In an effort to protect their ability to fix potential problems with RDS claim submission, LACERA staff asked the Center for Medicare Services (CMS) to reopen the 2006-2007 claim year. The audit's scope was reduced to include only Anthem Blue Cross, as

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Fifth District

February 20, 2014

To: Supervisor Don Knabe, Chairman  
Supervisor Gloria Molina  
Supervisor Mark Ridley-Thomas  
Supervisor Zev Yaroslavsky  
Supervisor Michael D. Antonovich

From: William T Fujioka  
Chief Executive Officer

A handwritten signature in black ink, appearing to read "W. T. Fujioka", is written over the printed name of the Chief Executive Officer.

## **RESPONSE TO THE AUGUST 20, 2013 BOARD MOTION REQUESTING ALL PARTIES TO REPORT TO THE BOARD ON ACTION TAKEN IN RESPONSE TO THE AUGUST 28, 2012 MOTION CONCERNING THE MEDICARE PART D DRUG SUBSIDY PROGRAM**

This memo is in response to your motion of August 20, 2013 requesting the Chief Executive Office (CEO), with the assistance of the Auditor-Controller and the Treasurer and Tax Collector, to report to the Board on the action taken by all parties in response to the August 28, 2012 motion concerning the Medicare Part D Drug Subsidy program and an effort to achieve maximum possible cost recovery for the County. On September 19, 2013, we submitted a progress report. This report is an update to that report.

The Los Angeles County Employees Retirement Association (LACERA) issued a Request for Proposal for Medicare Part D Retiree Drug Subsidy (RDS) Audit Services in August of 2013. LACERA staff subsequently evaluated the proposals received, and submitted the finalists to the Board of Retirement. At the January 15, 2014 meeting, the Board of Retirement conducted interviews. Milliman was selected by the Board to provide the Retiree Drug Subsidy Program reviews.

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A kick-off meeting between Milliman and LACERA was held on February 6, 2014. The meeting began Phase 1 of the Statement of Work and included:

Process Review

1. Review LACERA RDS submission process to assure process is efficient and effective and functioning as intended.
2. Report results and recommendations for LACERA RDS submission process improvements.

2008-2009 Audit/Review

1. Audit 2008-2009 RDS applications for all insurance plan carriers for completeness, accuracy, and compliance.
2. Report audit findings to LACERA, with all errors/exceptions found in the 2008-2009 RDS submission and provide recommendations for/against reopening of RDS submission.

2008-2009 Resubmission (If decision to reopen RDS applications is made by LACERA)

1. Reopen on LACERA's behalf.
2. Provide all required submission data to/for RDS resubmission.
3. Assure all supporting data/documentation is provided to LACERA for future audit reference.

Previously reported LACERA actions and updates include:

- Sole sourced the 2006-2007 RDS claim audits with their Retiree Healthcare Program (RHP) consultant, Aon Hewitt (Aon). In an effort to protect their ability to fix potential problems with RDS claim submission, LACERA staff asked Centers for Medicare Services (CMS) to reopen the 2006-2007 claim year. The audit's scope was reduced to include only Anthem Blue Cross as CMS denied reopening other plans. LACERA staff and Aon are working on the audit and coordinating with CMS.

**UPDATE** - In November 2012, LACERA submitted the reopening request for Anthem Blue Cross (2006-2007 plan year) to CMS. CMS approved this request. Subsequently, LACERA completed the required CMS steps and submitted the payment request on October 30, 2013. In November 13, 2013, LACERA received the additional approved subsidy amount of \$543,147.59.

- Sole sourced the 2007-2008 RDS claim audits with their RHP consultant Aon for the Cigna HMO and Kaiser plans. These audits were sole sourced due to project time lines (window to get the project completed was relatively narrow). LACERA staff and Aon are working on these audits. CMS has not been contacted.

**UPDATE** - Based on the result of Aon's findings of the audit, Aon recommended with staff's agreement that it would not be in the best interest for LACERA to pursue another reopening for the 2007-2008 plan year. This decision was made based on the following factors: 1) the additional reimbursement amount requested for the 2006-2007 plan year when compared to the potentially eligible additional amount is lower for the 2007-2008 plan year, and 2) CMS' previous declination to reopen Cigna and Kaiser plans for the 2006-2007 plan year.

Released an RDS Audit RFP for the 2007-2008 Anthem Blue Cross RDS plan, and plans with RDS claims submitted for the 2008-2009 and 2009-2010 plan years. Project deadlines are sufficiently in the future that they should be able to complete the RFP process, assess RDS claim findings, and work with CMS should the need arise. Project time line includes presenting finalist vendors to the Insurance, Benefit, and Legislative Committee at the November 14, 2013 meeting.

- Staff of LACERA and the CEO met with Los Angeles Unified School District (LAUSD) staff to analyze the discrepancies in RDS reimbursements for the calendar years 2007 and 2008. Preliminary analysis suggests a significant difference in the amount spent on drugs between the two entities; therefore, suggesting a significant difference in reimbursements would be expected. Staff continues to work with LAUSD to validate the numbers.

Significant progress continues to be made on LACERA's Retiree Drug Subsidy program. We will continue to update the Board of Supervisors on the progress. If you have any questions regarding this matter, please contact Maryanne Keehn at (213) 974-0470.

WTF:BC:JA  
MTK:mst

c: Wendy Watanabe, Auditor-Controller  
Mark Saladino, Treasurer and Tax Collector  
Gregg Rademacher, LACERA

CMS denied reopening other plans. LACERA staff and AON are working on the audit and coordinating with CMS.

- Sole sourced the 2007-2008 RDS claim audits with their RHP consultant AON for the Cigna HMO and Kaiser plans. These audits were sole sourced due to project time lines (window to get the project completed was relatively narrow). LACERA staff and AON are working on these audits. CMS has not been contacted.
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We will continue to update the Board on a quarterly basis of the continuing action taken by all parties. Should you require additional information, please contact Maryanne Keehn at (213) 974-0470.

JA:MK:rld

c: Wendy Watanabe, Auditor-Controller  
Mark Saladino, Treasurer and Tax Collector  
Gregg Rademacher, LACERA



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Fifth District

July 1, 2014

To: Supervisor Don Knabe, Chairman  
Supervisor Gloria Molina  
Supervisor Mark Ridley-Thomas  
Supervisor Zev Yaroslavsky  
Supervisor Michael D. Antonovich

From: William T Fujioka  
Chief Executive Officer

## **RESPONSE TO THE AUGUST 20, 2013 BOARD MOTION REQUESTING ALL PARTIES TO REPORT TO THE BOARD ON ACTION TAKEN IN RESPONSE TO THE AUGUST 28, 2012 MOTION CONCERNING THE MEDICARE PART D DRUG SUBSIDY PROGRAM**

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The Los Angeles County Employees Retirement Association (LACERA) issued a Request for Proposal for Medicare Part D Retiree Drug Subsidy (RDS) Audit Services in August of 2013. LACERA staff subsequently evaluated the proposals received, and submitted the finalists to the Board of Retirement. At the January 15, 2014 meeting, the Board of Retirement conducted interviews. Milliman was selected by the Board to provide the Retiree Drug Subsidy Program reviews.

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2. Report audit findings to LACERA, with all errors/exceptions found in the 2008-2009 RDS submission and provide recommendations for/against reopening of RDS submission.

2008-2009 Resubmission (If decision to reopen RDS applications is made by LACERA)

1. Reopen on LACERA's behalf.
2. Provide all required submission data to/for RDS resubmission.
3. Assure all supporting data/documentation is provided to LACERA for future audit reference.

**UPDATE** – Milliman has completed the audit of Cigna, but has not released the finding. The audits of Kaiser and Anthem are still in process.

Previously reported LACERA actions and updates include:

- Sole sourced the 2006-2007 RDS claim audits with their Retiree Healthcare Program (RHP) consultant, Aon Hewitt (Aon). In an effort to protect their ability to fix potential problems with RDS claim submission, LACERA staff asked Centers for Medicare Services (CMS) to reopen the 2006-2007 claim year. The audit's scope was reduced to include only Anthem Blue Cross as CMS denied reopening other plans. In November 2012, LACERA submitted the reopening request for Anthem Blue Cross (2006-2007 plan year) to CMS. CMS approved this request. Subsequently, LACERA completed the required CMS steps and submitted the payment request on October 30, 2013. In November 13, 2013, LACERA received the additional approved subsidy amount of \$543,147.59.



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Significant progress continues to be made on LACERA's Retiree Drug Subsidy program. We will continue to update the Board of Supervisors on the progress. If you have any questions regarding this matter, please contact Maryanne Keehn at (213) 974-0470.

WTF:BC:JA  
MTK:mst

c: John Naimo, Auditor-Controller  
Mark Saladino, Treasurer and Tax Collector  
Gregg Rademacher, LACERA



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November 25, 2014

To: Supervisor Don Knabe, Chairman  
Supervisor Gloria Molina  
Supervisor Mark Ridley-Thomas  
Supervisor Zev Yaroslavsky  
Supervisor Michael D. Antonovich

From: William T Fujioka  
Chief Executive Officer

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The Los Angeles County Employees Retirement Association (LACERA) issued a Request for Proposal for Medicare Part D Retiree Drug Subsidy (RDS) Audit Services in August of 2013. LACERA staff subsequently evaluated the proposals received, and submitted the finalists to the Board of Retirement. At the January 15, 2014, meeting, the Board of Retirement conducted interviews. Milliman was selected by the Board to provide the Retiree Drug Subsidy Program reviews. Since the last update, Milliman has concluded their audit.

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For the 2008-2009 RDS plan year, Milliman's audits results determined:

*Cigna* – Actuarial consultants from Milliman found there were no compelling reason to reopen with Centers for Medicare Services (CMS). According to Milliman's analysis, their calculations reflected the subsidy as approximately \$4,000 less than the initial payment request and that more than likely, CMS would not approve the reopening. Therefore, Milliman recommended against LACERA requesting a re-opening with CMS for this plan.

*Kaiser Permanente* - Milliman found no issues in the process review and; therefore, recommended against LACERA requesting to re-open the 2008-2009 plan year.

For the 2005, 2006, 2007, 2008, 2010, 2011, 2012 RDS plan year, Milliman's audits results determined:

*Anthem Blue Cross* - Milliman completed their analysis of claims for the Anthem Blue Cross Plan I, II, III, and Prudent Buyer plans estimating that LACERA may be entitled to an additional subsidy of approximately \$5.7 million. As a result, they recommended re-opening the Anthem 2008-2009 plan year.

During the first quarter of 2014, prior to the start of Milliman's auditing of the RDS program, LACERA received notification from CVS Caremark that during the review process of the RDS contracts, the CVS Caremark mail order and specialty drug claims did not appear to be included in the reporting that Anthem Blue Cross submits to CMS on LACERA's behalf. Upon further investigation, it was confirmed that neither the mail order nor the specialty drug claims were included in our RDS filing for plan years 2006-2012. LACERA staff informed Milliman so that they would be aware of this issue while auditing the Anthem Blue Cross I, II, and III plans. In addition, staff immediately contacted and met with Anthem Blue Cross Vice President and General Manager who appeared before LACERA's Board of Retirement in September 2014, accepting responsibility for the error and asserting that the processing error which caused the issue had been fixed.

Anthem further committed to working closely with the teams (LACERA, CVS Caremark, and Milliman) to support re-opening past applications, as well as processes for current and future applications. Anthem provided the estimated magnitude of this error to be approximately \$32 million. Since confirmation of this error, LACERA has communicated with CMS informing them that in addition to the 2008-2009 plan year, we will be looking to also re-open additional plan years. The entire team (LACERA, CVS Caremark, and Milliman) have been collaboratively working to calculate and submit re-opening requests

Each Supervisor  
November 25, 2014  
Page 3

for the other plan years (2005-2012). Thus far, the team has completed 2008-2009 and has received CMS' approval to re-open this plan year.

Significant progress continues to be made on LACERA's Retiree Drug Subsidy program. We will continue to update the Board of Supervisors on the progress. If you have any questions regarding this matter, please contact Maryanne Keehn at (213) 974-0470.

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